



DONLEE MANUFACTURING INDUSTRIES LIMITED



Annual Report 1975

DONLEE MANUFACTURING INDUSTRIES LIMITED and Subsidiaries

Board of Directors

W. M. Bowen, Q.C.	Toronto, Ontario
Partner, Blaney, Pasternak, Smela & Watson, Toronto	
R. H. Burns	Bramalea, Ontario
General Manager, General Gear Company, Weston	
J. B. Dawson	Dallas, Texas
National Sales Manager, Thorsen Tool Company, Dallas	
A. S. Donovan	Toronto, Ontario
President, Donlee Manufacturing Industries Ltd., Weston	
J. C. Donovan	Willowdale, Ontario
Vice-President, Donlee Manufacturing Industries Ltd., Weston	
J. Fogarty	Windsor, Ontario
Vice-President, Donlee Manufacturing Industries Ltd., Weston Vice-President, and General Manager, The Nuday Co., Detroit	
G. C. Stewart	Toronto, Ontario
President, Merrill Lynch Royal Securities Ltd., Toronto	

Officers

A. S. Donovan	President
J. C. Donovan	Vice-President
J. Fogarty	Vice-President
P. L. Murray	Secretary-Treasurer

DONLEE MANUFACTURING INDUSTRIES LIMITED AND SUBSIDIARIES

Head Office 430 Signet Drive, Weston, Ontario M9L 2T6

Divisions	• Donlee Nuclear	Weston
	• Donlee Plastics	Weston
	• General Gear Company	Weston
	• Paramount Industries	Weston

Subsidiaries	• Donlee Manufacturing Industries Inc.	Detroit
	and its subsidiaries	
	Automotive Industries Inc.	Reno, Pa.
	Donlee Plastic Products, Inc.	Detroit
	Mobile Materials Handling & Equipment, Inc.	Buffalo
	Radex Corporation	Detroit
	The Nuday Co.	Detroit
	• The Nuday Equipment Company of Canada (1968) Limited	Weston



DONLEE MANUFACTURING INDUSTRIES LIMITED

Highlights	1975	1974
Earnings before extraordinary item	\$ 823,000	\$ 671,000
Extraordinary item (loss)	(102,000)	156,000
Net earnings	<u>\$ 721,000</u>	<u>\$ 827,000</u>
Earnings per share before extraordinary items	<u>\$ 2.34</u>	<u>\$ 1.91</u>
Net earnings per share	<u>\$ 2.05</u>	<u>\$ 2.35</u>
Working Capital	\$1,884,000	\$1,073,000
Shareholders' equity	\$3,726,000	\$3,005,000
Shareholders' equity per share	\$ 10.60	\$ 8.55

The cover photographs representing the divisions activities are identified clockwise from the top: The Nuday Co., Paramount Industries, General Gear, Donlee Nuclear, Automotive Industries, Inc., Donlee Plastics.



DONLEE MANUFACTURING INDUSTRIES LIMITED

Report to Shareholders — 1975

Earnings (before extraordinary item) in 1975 were \$823,000 or \$2.34 per share. An extraordinary loss on disposal of shares of a subsidiary, Mobile Materials Handling Equipment Limited, amounting to \$102,000 (\$.29 per share) reduced earnings to \$721,000 or \$2.06 per share.

The shares of Mobile were sold at December 30th, 1975. The nature of the business did not fit in with the overall picture at Donlee. When the opportunity arose to dispose of the shares, it was accepted.

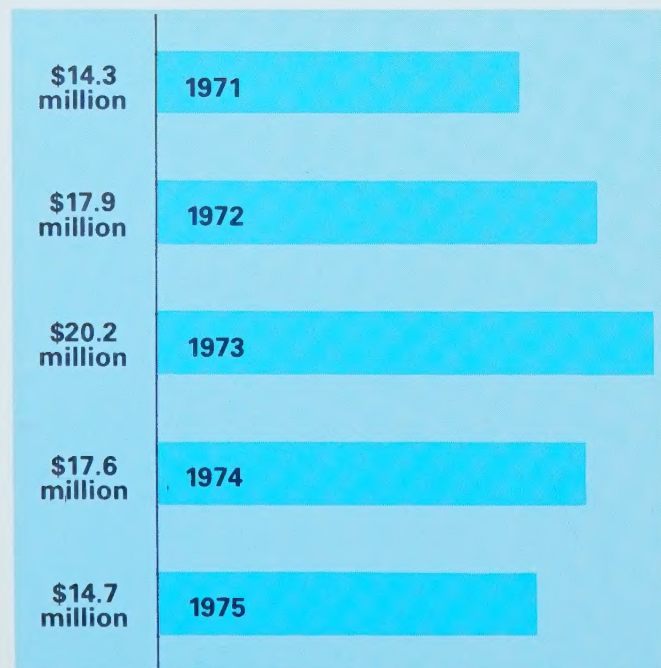
Sales excluding Mobile were \$14,742,000 in 1975, in comparison with \$17,600,000 in 1974. The reduction in sales was the result of our planned program to become less reliant on the automotive industry.

During the year, the plastics injection moulding division of Shaw Industries Inc., located in Reno,

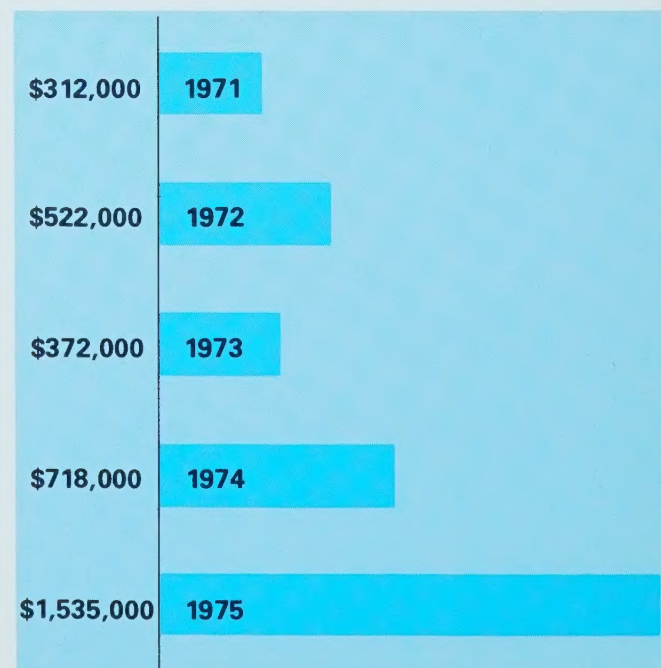
Pennsylvania, (midway between Oil City and Franklin in north-west Pennsylvania) was acquired as a diversification move for Automotive Industries Inc. Because of the problems of dismantling and moving heavy injection moulding machines, and the desire to be under one roof, the visor assembly operation was moved to Pennsylvania and the Owendale, Michigan plant was sold. The injection moulding business sells to customers in varied businesses, and will provide an excellent base of non-automotive work for future expansion and diversification.

Throughout the final six months of 1975, Paramount Industries operated a profitable and efficient visor hardware and glove box operation. With the improvement in the sales of automobiles and the addition of the injection moulding operation,

Sales



Capital Expenditures



the contribution of these two divisions to profits in 1976 should be on target.

The other divisions of the company, Donlee Nuclear, General Gear, Donlee Plastics and Nuday/Radex, all turned in very creditable results.

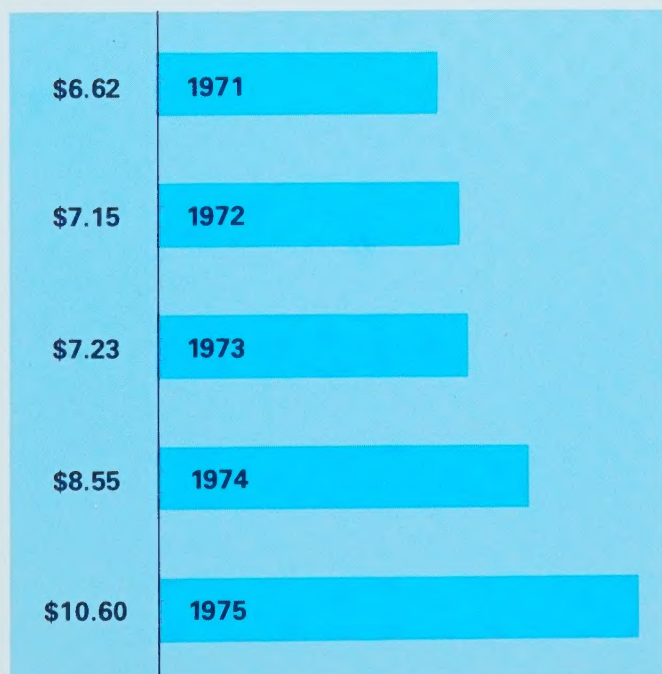
In all of these divisions, profits and sales were up over 1974 figures. Considerable expenditures were made in these operations on additional and more productive equipment. Future benefits from these outlays will be experienced through increased volumes and efficiency.

The generation of significant earnings which commenced in 1973 and continued throughout 1974 and 1975 permitted the reorganizing of our financial structure. Bank loans were reduced by the borrowing of "mid-term" funds repayable over seven

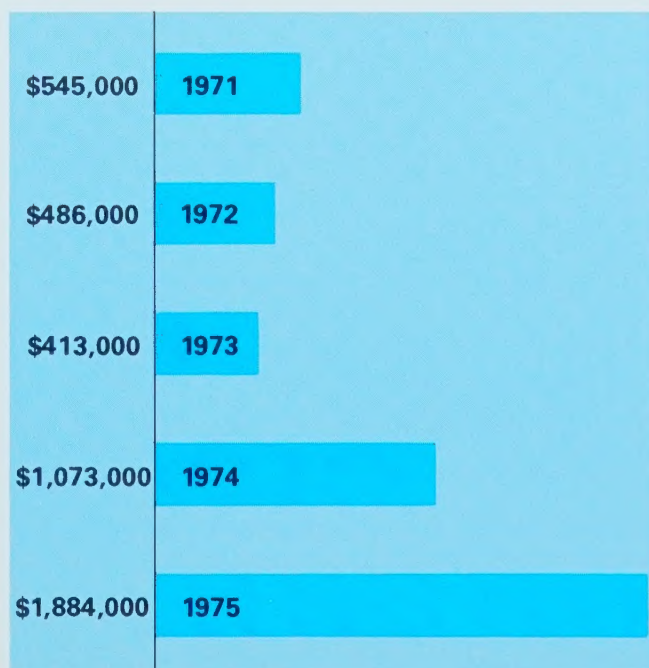
years. This borrowing plus mortgages financing the acquisition in Pennsylvania, depreciation and earnings, allowed the working capital to increase by \$811,000, despite the sizeable reduction resulting from the disposal of Mobile Materials. The company is now in good financial health.

A proposal will be brought before the shareholders at the annual general meeting, in which their approval will be sought for the conversion of the present common shares into Class A shares. These new shares could be converted into Class B shares at the option of the holder. The Class A and Class B would rank equally in all respects. The only difference in the shares would be that dividends on the "A" shares would be paid out of accumulated earnings since January 1st, 1972, and subject to income tax. Class B shares, on the other hand,

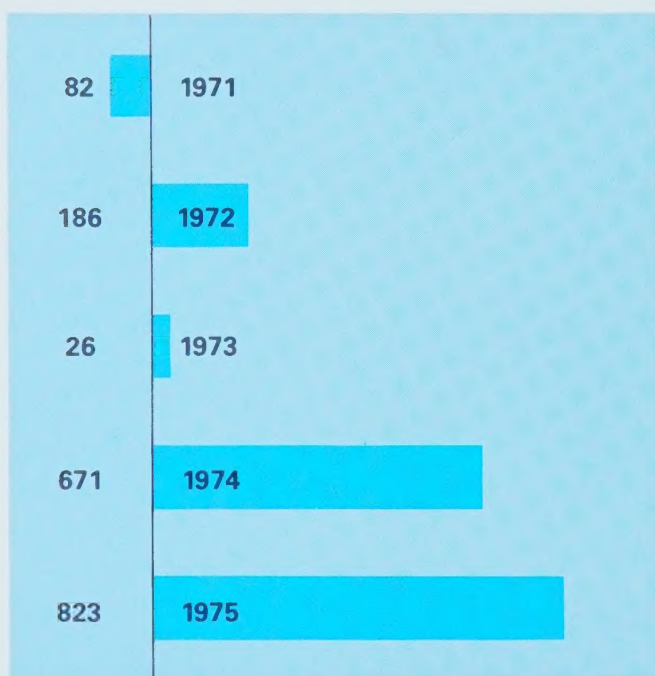
Equity per Share



Working Capital

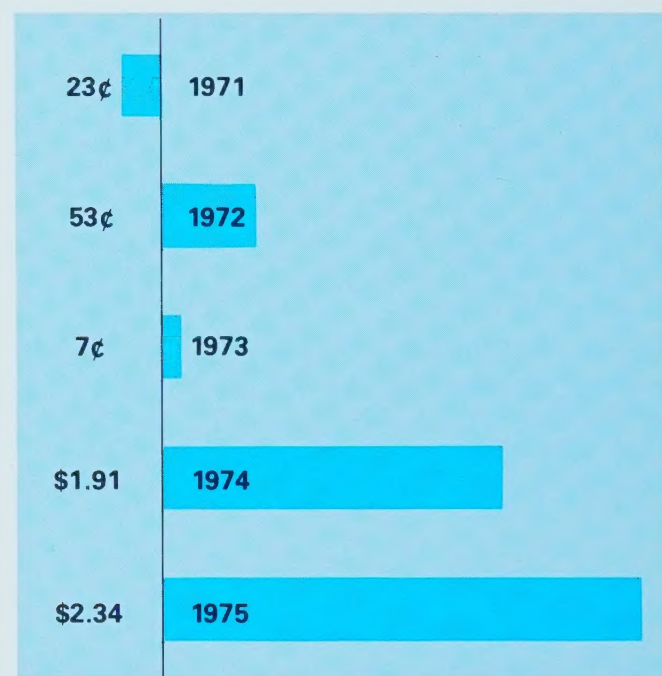


Loss (000's)
(before extraordinary items)



Earnings (000's)

Loss per Share
(before extraordinary items)



Earnings per Share

would receive a smaller dividend paid out of tax paid undistributed income on hand at the end of 1971, in accordance with Section 196 of the Income Tax Act. Taxes on this dividend would be deferred to the future.

It is proposed that a quarterly dividend of 20¢ on Class A and 17¢ on Class B be paid. The first dividend amounting to 40¢ on the "A" and 34¢ on the "B" would be disbursed in June, with regular quarterly payments from that time on. These amounts are in compliance with the regulations of the Anti-Inflation Board.

Our projections for sales growth in 1976 are in the 15% range, which is indicative of a relatively modest improvement in the economy. The divisions which contributed the excellent results for 1975 will be striving to repeat their successes. An improved

performance from the automotive sector of the company, resulting from the internal reorganization and from a more buoyant automotive industry, should enhance the overall earnings for 1976.

We appreciate the continued support of our customers and suppliers and the dedicated efforts of our valued employees.

On Behalf of the Board of
Directors

A. S. Donovan
President

March 16, 1976.

Statement of Consolidated Earnings

YEAR ENDED DECEMBER 31, 1975

	1975	1974
Sales	<u>\$14,742,000</u>	<u>\$17,624,000</u>
Expenses		
Cost of sales other than the undernoted	10,877,000	13,720,000
Depreciation and amortization		
Fixed assets	493,000	437,000
Other	2,000	13,000
Interest		
Long term debt	138,000	109,000
Other	164,000	234,000
Selling and administrative expenses	<u>1,730,000</u>	<u>2,134,000</u>
	<u>13,404,000</u>	<u>16,647,000</u>
Earnings from continuing operations before income taxes	<u>1,338,000</u>	<u>977,000</u>
Income taxes		
Current	461,000	332,000
Deferred	<u>108,000</u>	<u>96,000</u>
	<u>569,000</u>	<u>428,000</u>
Earnings from continuing operations	769,000	549,000
Earnings from discontinued operations after depreciation of \$35,000 (1974, \$53,000) less applicable income taxes	<u>54,000</u>	<u>122,000</u>
Earnings before extraordinary items	823,000	671,000
Extraordinary items		
Loss on sale of subsidiary and related income taxes of \$48,000	(102,000)	
Income tax reduction realized on the carry forward of prior years' losses		156,000
Net Earnings	<u>\$ 721,000</u>	<u>\$ 827,000</u>
Earnings per share		
Earnings from continuing operations	\$2.19	\$1.56
Earnings before extraordinary items	\$2.34	\$1.91
Net earnings	\$2.05	\$2.35

Statement of Consolidated Retained Earnings

YEAR ENDED DECEMBER 31, 1975

Balance at beginning of year	\$1,935,000	\$1,471,000
Net earnings	<u>721,000</u>	<u>827,000</u>
	2,656,000	2,298,000
Write-off of excess of cost over book value at dates of acquiring shares of subsidiaries		363,000
Balance at end of year	<u>\$2,656,000</u>	<u>\$1,935,000</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED
(Incorporated under the laws of Ontario)
and subsidiaries

Consolidated Balance Sheet as at December 31, 1975

Assets	1975	1974
Current Assets		
Cash	\$ 199,000	\$ 79,000
Accounts receivable	2,443,000	2,501,000
Inventories at the lower of cost and net realizable value	2,549,000	3,027,000
Prepaid expenses	28,000	54,000
	<u>5,219,000</u>	<u>5,661,000</u>
Fixed Assets		
Land, buildings and equipment, at cost	6,685,000	5,644,000
Less accumulated depreciation	2,833,000	2,575,000
	<u>3,852,000</u>	<u>3,069,000</u>
Other Assets		
Promissory notes receivable less amounts due within one year included in current assets (note 2)	576,000	
Other	7,000	18,000
	<u>583,000</u>	<u>18,000</u>
	<u>\$9,654,000</u>	<u>\$8,748,000</u>

Approved by the Board

A. S. Donovan, *Director*

G. C. Stewart, *Director*

Liabilities

Current Liabilities

Bank advances (note 3)	\$ 985,000	\$1,647,000
Accounts payable and accrued liabilities	1,611,000	2,357,000
Income taxes payable	292,000	188,000
Deferred income taxes	19,000	38,000
Principle due within one year on long term debt	428,000	358,000
	<u>3,335,000</u>	<u>4,588,000</u>

Long Term Debt (note 7)	<u>2,102,000</u>	<u>822,000</u>
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Deferred Income Taxes	<u>491,000</u>	<u>333,000</u>
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Shareholders' Equity

Capital Stock

Authorized — 600,000 common shares without par value		
Issued — 351,400 common shares	1,070,000	1,070,000

Retained Earnings	<u>2,656,000</u>	<u>1,935,000</u>
	<u>3,726,000</u>	<u>3,005,000</u>
	<u>\$9,654,000</u>	<u>\$8,748,000</u>

AUDITORS' REPORT

To the Shareholders of
Donlee Manufacturing Industries Limited

We have examined the consolidated balance sheet of Donlee Manufacturing Industries Limited and subsidiaries as at December 31, 1975 and the statements of consolidated earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 3, 1976

THORNE RIDDELL & CO.
Chartered Accountants

Statement of Consolidated Changes in Financial Position

YEAR ENDED DECEMBER 31, 1975

	1975	1974
Working capital derived from		
Operations		
Earnings before extraordinary items	\$ 823,000	\$ 671,000
Items not involving working capital		
Depreciation and amortization	530,000	503,000
Other assets written off	5,000	110,000
Deferred income taxes	133,000	168,000
Other		(13,000)
	<u>1,491,000</u>	<u>1,439,000</u>
Disposal of fixed assets	60,000	81,000
Proceeds of sale of subsidiary	502,000	
Long term debt assumed	1,729,000	
Income tax reduction realized on the carry forward of prior years' losses		156,000
	<u>3,782,000</u>	<u>1,676,000</u>
Working capital applied to		
Additions to fixed assets	1,535,000	718,000
Working capital of subsidiary sold	456,000	
Non-current portion of notes receivable	576,000	
Decrease in non-current portion of long term debt ..	402,000	280,000
Other	2,000	18,000
	<u>2,971,000</u>	<u>1,016,000</u>
Increase in working capital	811,000	660,000
Working capital at beginning of year	<u>1,073,000</u>	<u>413,000</u>
Working capital at end of year	<u>\$1,884,000</u>	<u>\$1,073,000</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 120,000	\$ 20,000
Accounts receivable	(58,000)	(195,000)
Income taxes recoverable		(8,000)
Inventories	(478,000)	42,000
Prepaid expenses	(26,000)	2,000
	<u>(442,000)</u>	<u>(139,000)</u>
Increase (decrease) in current liabilities		
Bank advances	(662,000)	(271,000)
Accounts payable and accrued liabilities	(746,000)	(638,000)
Income taxes payable	104,000	109,000
Deferred income taxes	(19,000)	(60,000)
Principal due within one year on long term debt	70,000	61,000
	<u>(1,253,000)</u>	<u>(799,000)</u>
Increase in working capital	<u>\$ 811,000</u>	<u>\$ 660,000</u>

Notes to Consolidated Financial Statements

DECEMBER 31, 1975

1. Summary of Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries.

Earnings and changes in the financial position of businesses acquired or sold are included from the dates of their effective acquisition or to the dates of their sale.

Effective December 30, 1975 the company disposed of its investment in Mobile Materials Handling Equipment Limited. Earnings of that business to the above date and the loss on its sale have been set forth separately in the statement of consolidated earnings.

The 1974 figures have been restated in accordance with the financial statement presentation adopted in 1975 as a result of the sale of Mobile Materials Handling Equipment Limited.

(b) Currency conversion

The financial statements of the company's U.S. subsidiary, Donlee Manufacturing Industries, Inc. and its subsidiaries have been converted from United States to Canadian dollars as follows:

- (i) current assets and current liabilities, at the exchange rate prevailing at December 31, 1975;
- (ii) revenue and expenses, at the average rate of exchange during the year;
- (iii) other assets and other liabilities substantially at the rates prevailing at the date on which they were acquired or incurred.

(c) Fixed assets

Land, buildings and equipment are stated at cost and are depreciated on the straight line basis over their estimated useful lives substantially as follows:

Buildings — 30 years

Plant and equipment — over periods varying from 5 to 10 years

Leasehold improvements — over the terms of the respective leases

Retirements and other disposals are removed from the accounts at their carrying values and any gains or losses resulting from disposals are reflected in earnings.

2. Promissory notes

Promissory notes are repayable in monthly instalments of \$5,334 commencing January 31, 1976. They are secured by a debenture carrying a floating charge on the assets of Mobile Materials Handling Equipment Limited.

3. Bank Advances

Bank advances are secured by a general assignment of book debts and inventories.

4. Anti-Inflation Act

The company is subject to the anti-inflation guidelines with respect to the amount of dividends paid.

5. Long Term Leases

The company rents several buildings under long term leases. The aggregate of rentals incurred as an expense on these leases during 1975 was \$98,000. The aggregate minimum rental expense to be incurred under these leases during the five years ending December 31st, 1980, will be \$235,000. The leases expire at varying dates to December 1st, 1984.

6. Other Statutory Information

Direct remuneration of directors and senior officers (as defined by The Business Corporation Act) amount to \$353,000 (1974 — \$308,000).

Notes to Consolidated Financial Statements (Continued)

DECEMBER 31, 1975

7. Long Term Debt

	1975	1974
Serial debenture, Adjustment Assistance Board 7¼%	\$ 689,000	\$ 845,000
The debenture matures on May 15th, 1980 and is payable in monthly instalments of \$13,000 plus interest. The payment of principal is secured by —		
(a) first fixed charge on land owned December 31st, 1968, and buildings thereon		
(b) fixed charge on machinery and equipment now owned or to be acquired.		
Note payable:	1,250,000	
The note is payable in 27 quarterly instalments of \$53,500 and a final payment December 31, 1982, of \$55,500. The note bears interest at 2% per annum greater than the published money market rates for ninety day funds.		
The note is secured by a \$1,500,000 demand debenture bearing interest at 12% per annum. The debenture carries a second fixed and specific mortgage and charge on —		
(a) the land, building, machinery and equipment owned by the company		
(b) the company's right, title and interest in and to the land and premises held under lease		
and a second floating charge on all its property, assets and rights, both present and future.		
Note payable:	425,000	
The note bears interest at 2% over the Chase Manhattan Bank prime interest rate. The note is payable in 120 equal monthly instalments commencing January 31st, 1976, and is secured by purchase money mortgages on real estate and equipment of Automotive Industries, Inc.		
Other	166,000	335,000
	<u>2,530,000</u>	<u>1,180,000</u>
Less principal due within one year included in current liabilities	428,000	358,000
	<u>\$2,102,000</u>	<u>\$ 822,000</u>

Principal due within each of the next five years is as follows:

1976	\$428,000
1977	426,000
1978	426,000
1979	427,000
1980	337,000

Five Year Financial Summary

	(Dollars in Thousands Except For Per Share Data)				
	1975	1974	1973	1972	1971
Earnings					
Gross operating revenue	\$ 14,742	17,624	20,209	17,965	14,314
Earnings (loss) from continuing operations before income taxes	1,338	977	262	327	(293)
Income taxes	569	428	236	141	(211)
	769	549	26	186	(82)
Earnings from discontinued operations	54	122	—	—	—
Earnings (loss) before extraordinary items	823	671	26	186	(82)
Extraordinary items	(102)	156	—	—	—
Net earnings	\$ 721	827	26	186	(82)
Financial Position					
Current assets	\$ 5,219	5,661	5,800	5,249	4,746
Current liabilities	3,335	4,588	5,387	4,763	4,201
Working capital	1,884	1,073	413	486	545
Property, plant and equipment (net)	3,852	3,069	2,922	3,016	2,926
Other assets	583	18	486	494	512
Capital employed	\$ 6,319	4,160	3,821	3,996	3,983
Capital provided by					
Others—long term debt	\$ 2,102	822	1,102	1,393	1,643
—deferred income tax	491	333	165	76	—
	2,593	1,155	1,267	1,469	1,643
Shareholders	3,726	3,005	2,554	2,527	2,340
Capital provided	\$ 6,319	4,160	3,821	3,996	3,983
Other Financial Data					
Ratio of current assets to current liabilities	1.6:1	1.2:1	1.1:1	1.1:1	1.1:1
Ratio of long term debt to shareholders' equity56:1	.27:1	.43:1	.55:1	.70:1
Depreciation and amortization	530	503	450	403	370
Funds provided	811	660	(73)	(59)	50
Return on average capital employed	16%	17%	1%	5%	(2%)
Return on average shareholders' equity	24%	24%	1%	8%	(3%)
Per Share Data (based on 351,400 shares throughout)					
Earnings (loss) before extraordinary items	2.34	1.91	.07	.53	(.23)
Net earning (loss)	2.05	2.35	.07	.53	(.23)
Shareholders' equity	10.60	8.55	7.27	7.19	6.66
Working capital	5.36	3.05	1.18	1.38	1.55

Notes:

1974 figures have been restated in accordance with financial statement presentation adopted for 1975.

Return on capital employed and shareholders' equity has been calculated using earnings before extraordinary items.

Auditors

Thorne Riddell & Co. Toronto
Derderian, Kann, Seyferth & Salucci, P.C. Troy, Michigan
Karl Leppien & Company, P.C. Pigeon, Michigan

Transfer Agent

The Royal Trust Company Toronto, Montreal

Bankers

Royal Bank of Canada Toronto
The Pennsylvania Bank & Trust Company Franklin, Pa.
Manufacturers National Bank of Detroit Detroit, Michigan
Marine Midland Bank—Western Buffalo, New York

Legal Counsel

Blaney, Pasternak, Smela & Watson Toronto
Cross, Wrock, Miller & Vieson Detroit

DONLEE MANUFACTURING INDUSTRIES LIMITED



